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The Interstate Commerce Commission: Railway Rate Regulation *and* National Prosperity

Interstate Commerce Commission Has
the Power and Obligation, Dele-
gated by Congress, to Promote the
General Welfare—Railway Buying
Power Measures Volume of
General Business

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RAILWAY PURCHASES AND GENERAL BUSINESS

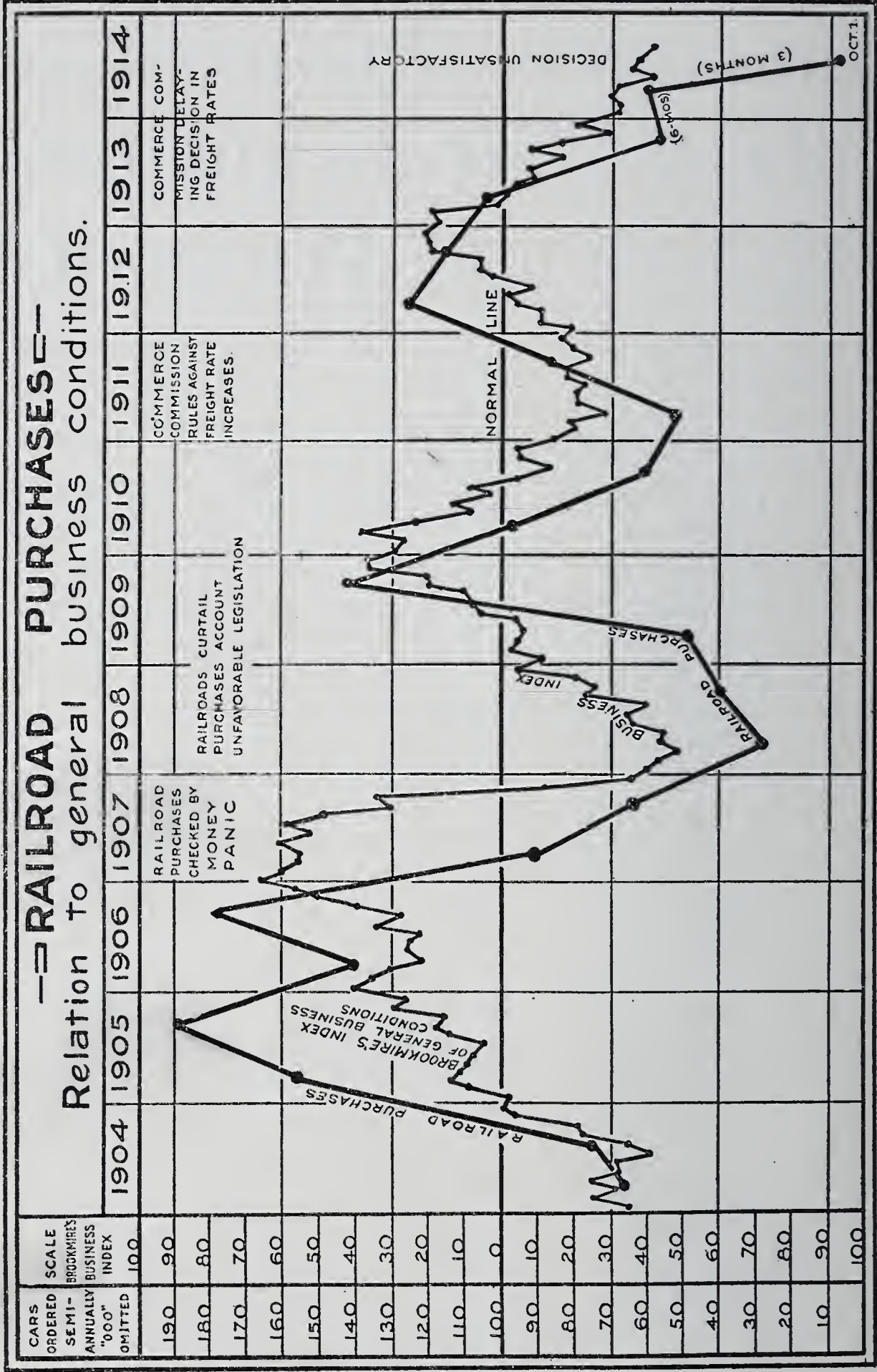


Chart prepared by E. B. Leigh, President, Chicago Railway Equipment Co., from Statistics of Car Orders and the Index to General Business Conditions issued by Brookmire, the St. Louis statistician, to show how closely revivals follow resumption of railway purchases, and recessions follow decline in railway purchases.

THE INTERSTATE COMMERCE COMMISSION: RAILWAY RATE REGULATION AND NATIONAL PROSPERITY

Fundamental Purpose of the Creation of the Commission Must
Be to Conserve the Good of the People as a Whole

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(Reprinted from the Iron Age)

Railway rates, general prosperity, and the function of the Interstate Commerce Commission in connection herewith were the subjects of comment by the Commission in its decision of July 29, 1914, dealing with the 'Five Per Cent Advance Case.'

The Commission held: "The law did not confer upon us power of aiding general prosperity."

A propaganda, of which the Commission disapproved, had proceeded as if the Commission had the legislative power in that form to stimulate business activity and promote the public welfare."

The Commission concluded: "We have no authority to approve rate increases with a view to stimulating business."

THE COMMISSION'S RESPONSIBILITY

It is manifestly of the utmost importance that somewhere in our government, responsibility shall lie for that specific promotion of the general welfare which consists of protecting the railways against influences, governmental and otherwise, which tend to impoverish the roads, and with them, the whole people.

If the Interstate Commerce Commission does not perform that function, who will?

It is undoubtedly true that, as originally organized, the functions of

the Interstate Commerce Commission were largely confined to an administrative or semi-judicial consideration of complaints and alleged abuses, specifically referred to them for adjudication. Under these conditions the decisions and orders of the Commission did not broadly affect the railroads' prosperity, or the general business of the country.

But with the enlargement of its powers, and particularly when Congress delegated the *rate making power* to the Commission, that body was logically and inevitably vested with the responsibility of that which would naturally flow from its exercise of such sweeping powers, and not only in its effect upon the railroads themselves, but upon all collateral as well as general business interests.

CONGRESS DELEGATED LARGE POWERS

Congress is unquestionably charged with promoting the general welfare.

The general railway problem has been committed by Congress to the Interstate Commerce Commission. Whatever the precise terms of the law, the Commission clearly has the responsibility.

The decisions of the Supreme Court in the "Shreveport Case" and the "Inter-Mountain Rate Case" seem to clearly suggest not only this responsi-

bility, but the broad inherent powers of the Commission, and the consequent necessity of its wise and prudent exercise of such authority.

As now constituted, with the broad scope and power delegated to it by Congress, and as suggested and virtually defined by the Supreme Court, is not the Interstate Commerce Commission today more of a legislative than a judicial body?

It would seem that the fundamental purpose of the creation of the Interstate Commerce Commission, with its enormous delegated power, must be that of conserving the good and benefit of the people as a whole, and not merely that of partisan or isolated interests.

Certain it is that the Commission, by virtue of its authority and control, is charged with the responsibility of the preservation and prosperity of the railways, at least in so far as the exercise of such authority and control is essential to their maintenance and prosperity.

As railway prosperity affects general prosperity (or the people as a whole), to just that extent is the Commission responsible for such general prosperity.

It is well known that the wonderful expansion and development of this country have been due primarily to the railways. Possibly all the people do not realize that the railways constitute the great arterial system of our country and, like the arterial system of the human body, if sound and strong, then the entire body is strong; if impaired, the entire structure is weakened. The great centers of population are dependent upon the railways for their daily existence.

Not only have the railways developed the agricultural, mining, manufacturing and commercial activities of this country; but because of their enormous requirements for the maintenance and extension of their own

properties, have become the most potent single, contributing factor to general business prosperity.

AN OBLIGATION TO AID PROSPERITY

The Commission held: "The law did not confer upon us power of aiding general prosperity." It can hardly be claimed that the law conferred upon them the power (or right) of *impairing* or *retarding* general prosperity. If it gave the Commission the power of legislating upon that which virtually affects general prosperity, may we not assume that the law (surely intended for good and not evil) *did* confer upon the Commission not only the power, but the *obligation* of aiding prosperity?

It is not contended that rates should be advanced solely to stimulate or aid general prosperity regardless of whether such rates are reasonable and fair, but it is contended that when the railways have proven the necessity of greater revenues, and for the lack of which they are obliged to curtail normal expenditures, resulting in the consequent curtailment of general business, then it becomes a double duty of the Commission to grant adequate revenue not only to relieve the railways but to thereby promote national prosperity.

Its now defined scope and authority make the Commission the possible controlling factor not only in the measure of prosperity of the railways but of the whole people. The Commission is thus invested with the greatest power for the possible confiscation of private property the world has ever seen.

On the other hand, its authority carries with it the ability of the Commission to be the greatest conservator of the public good, and the greatest direct contributor to stable, normal business conditions.

There are always some who will object and illustrate the trite aphorism of holding a penny so close to the

eye that it obscured the dollar a few inches beyond, but the broad policy of the greatest good to the greatest number should prevail.

Is not the Commission thus legally and morally bound to execute this sacred trust in the interest of not one or a few elements of our national activities, but in the interest, and for the benefit, of the people as a whole?

THE SITUATION

The necessities of the railways have not only been proven, but formally admitted by the Commission. The necessities of the country are equally obvious, and more than proven.

For many months past a large number of the industries wholly dependent upon the railways have been practically prostrated, while others more or less dependent upon the railways have experienced most serious curtailment.

This is not due to the European war; but is a condition of steady growth from about the middle of 1913. The effect of this prostration upon business in general had been clear for many months—not only to those engaged in railway and cognate industries, and banking; but to the shippers, and general public.

The Commission in its decision of July mentions protests against the advance sought. But it is significant that not a single business organization located in "Official Classification Territory," where advances were sought, is listed as opposing a general advance. On the contrary the country today is almost a *unit* for an advance.

These facts sufficiently reveal the extent to which the people have been directly "touched in their pocket books" by the distress arising from the inability of the railways to operate and develop as they would under normal conditions.

The Interstate Commerce Commission is not only as good a place as

any, but the logical place, for the United States Government to begin applying the principle that encouragement and solicitude for the welfare of business are as vitally important as supervision and restriction.

RAILWAY BUYING AND GENERAL PROSPERITY

Railway purchases as a measure of general business prosperity were discussed last December by the author of this article in an address which undertook to show from statistics covering a period of years, that general depression had uniformly followed a marked decrease in railway buying; while general business activity had regularly succeeded resumption of substantial outlays by the railways.

Referring to the connection between railway rates and railway purchasing power: disclaimer was made of any thought that advances in rates should be permitted "in order that unnecessary purchases may temporarily benefit the railway supply industries, or even the whole country. Waste never permanently benefits anybody." The proposition, it was pointed out, was "not to over-stimulate, but to remove an artificial restriction in the shape of rates too low."

What is the relation between railway prosperity and general business prosperity? How is it measured, and how can it be demonstrated?

It does not seem out of place to answer the foregoing by partially quoting from the writer's previous address:

"Not many years ago, comparatively few business men aside from those directly selling to the railways, realized that *railway prosperity meant general business prosperity*.

"Inasmuch as the railways of the country constitute its greatest industry next to agriculture; with but one thing to sell—transportation: the

ultimate consumers of everything they buy; their purchases extending substantially throughout almost every department of business; many of them on a tremendous scale—it must be obvious how potent a factor they are in general business conditions.

“As the ‘Iron and Steel Industry’ has long been recognized as the basic industry of the country and the truest index of general business conditions, and as the statement has been reliably made that railways consume, directly or indirectly, from 40% to 50% of the iron and steel production of the country; it is manifest that the expansion or restriction of railway consumption must vitally affect this *barometer*.

“The ramifications of railway purchases make it impossible to classify them in the aggregate, but it is believed that of those items officially compiled, tabulated and made public, perhaps no one item so accurately and typically reflects the railways’ general purchasing ability as that of new equipment, or new cars built each year.”

The number of freight cars built each year taken as a unit, and termed “railway purchases,” has been projected on the well known chart of the Brookmire Economic Service for the ten-year period 1904 to October 1, 1914, inclusive, and the relation between “railway purchases” and the trend of “general business” clearly shown.

While it is not possible, within the limits of this article, to trace in graphic detail the relative movements from month to month during this ten-year period, the chart clearly confirms the soundness of the doctrine that *railway purchases measure general business prosperity*.

A NEW FACTOR IN 1908

It should be here noted that up to 1908 these two factors (“railway pur-

chases” and “general business”) moved in normal relation; but in 1908 a new condition or factor, appeared, due to the investment of the rate making power in the hands of the Interstate Commerce Commission.

Thus, for the first time were “railway purchases” controlled by *abnormal* rather than normal conditions, and have so continued, more or less, from 1908 to the present time.

The year 1908 was notably the leanest of business years, notwithstanding bumper crops, plentiful money and absence of disturbed political conditions—the three recognized elements making for good business. It likewise recorded the smallest number of cars ordered during the period, and the minimum of railway purchases for many years past.

THE BUYING MOVEMENT OF 1912

In 1912, heavy purchases continued throughout the year, carrying general business to the high peak, at the end of the year.

Just here it is again illuminating to consider the effect of “railway purchases”:

The year 1912 was a “presidential” year, proverbially and historically a poor business year, and fraught with more of those “uncertain” elements normally operating to check or hold back business than in almost any previous year.

The “Banking Index” throughout the year ranged at about “normal,” with crop conditions “good.” But it is believed neither of these fundamentals would have offset the drastic change in politics, early and clearly foreshadowed.

Just why was “1912” the one exceptional “presidential” year? What were the political conditions and political policies almost ignored?

If there had been any doubt as to the *basic factor of railway purchases*

it was brought into bold relief in 1912, and that year furnishes the answer.

At this point it may be interesting to note a comparison of conditions prevailing in 1908 and 1912:

Economists recognize three great fundamental factors as foreshadowing and affecting business:

MONEY—CROPS—POLITICS

Let us apply this to the years

1908	
PLETHORIC RESERVES BUMPER CROPS NO DISTURBING POLITICAL CONDITIONS	R.R.'s <i>not</i> buying Result: Very low ebb of business.
1912	
NORMAL RESERVES NORMAL CROPS VERY DISTURBED POLITICAL CONDITIONS.	R.R.'s <i>Buying</i> Result: Business very nearly booming.

NINETEEN MONTHS OF POOR BUYING

In 1913, the heavy purchases of new equipment continued during the first three months, but sharply declined at the beginning of the second half of the year—almost immediately sinking to the lowest level reached these several years.

It was here that the “danger signal” was set by *this* barometer; but, naturally, general business did not immediately feel this falling off of railway purchases at the time (because of the accumulations), being sustained by the “unfilled orders” or, what might properly be termed the unspent momentum.”

The conditions clearly foreshadowed at the middle of the year evenuated, and have remained not only throughout 1913, but in more accentuated form during the present year to date.

While it is true that the railway

supply industry is logically the first to recognize, and to participate in, a revival of general business, and is likewise the first to detect the signs, and feel the effects of its impending decline, nevertheless the *principle* holds good, and exerts itself throughout the entire fabric of general business.

THE CASE IN A NUTSHELL

The natural and conclusive deductions to be made from the foregoing are:

That while general financial conditions are essentially fundamental to all industry and commerce of every character: the railways, consuming, directly or indirectly, between 40 and 50% of the production of the steel and iron industry—itsself a basic industry—clearly are *the basic factor* in initiating a general business movement, and whose cessation of purchases (conversely) retards such movement.

In other words, and *regardless of favorable money conditions, crop conditions, political conditions, or any of the other fundamentally contributing factors to a sound business condition: unless the railways are placed in a position to make purchases, and do make purchases on a normal scale, normal prosperity is withheld from general business.*

It is this great, salient feature of the question which the Interstate Commerce Commission is urged to recognize, as it has been recognized by the industrial and commercial world.

Sooner or later, in one way or another, the sound policy of “live and let live” must be invoked and applied to this question, if our railways, our industries, and our commercial enterprises are to enjoy a normal measure of prosperity. It is directly or indirectly a matter of vital importance *to every individual in our nation.*

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